

**TESTIMONY OF
MICHAEL S. PONICA *ON*
*BEHALF ON DELMARVA POWER***

1 **DELMARVA POWER & LIGHT COMPANY**

2 **TESTIMONY OF MICHAEL S. PONCIA**

3 **BEFORE THE DELAWARE PUBLIC SERVICE COMMISSION**

4 **CONCERNING THE NOVEMBER 2008 THROUGH OCTOBER 2009**

5 **GAS COST RATE**

6 **P.S.C. DOCKET NO. 08- F**

7 **1. Q: State your name, position, and business address.**

8 A: Michael S. Poncia, Director of Gas Delivery, for Delmarva Power & Light
9 Company (the "Company" or "Delmarva"), 630 Martin Luther King Boulevard, P. O.
10 Box 231, Wilmington, Delaware 19899-0231.

11 **2. Q: Please state your educational background, employment experience and present job**
12 **responsibilities.**

13 A: I have a Bachelors and Masters Degree in Civil Engineering from Drexel
14 University. I have worked for Pepco Holdings, Inc. ("PHI"), the ultimate parent of
15 Delmarva and its affiliates for approximately 11 years in various capacities, including
16 Process Manager, Customer Relationship Management, and Manager, Energy Markets.
17 Prior to joining PHI, I worked for PECO Energy – Exelon performing a variety of
18 engineering, project management, construction, and account management roles. In my
19 current capacity as Director, I am responsible for all aspects of reliability, safety,
20 planning, engineering, construction, and operations & maintenance for the regulated gas
21 utility serving approximately 122,000 customers in Delmarva's New Castle County
22 service territory.

1 3. Q: Have you previously testified before this Commission?

2 A: No, I have not.

3 4. Q: What is the purpose of your testimony in this proceeding?

4 A: I am testifying on behalf of Delmarva supporting the Gas Cost Rate ("GCR")
5 proposed to be effective from November 1, 2008 through October 31, 2009. Specifically,
6 I will provide background regarding Delmarva's policy on the following matters:

7 1. The Company's strategy to mitigate the volatility of wholesale natural gas
8 market prices;

9 2. The Customer Communications Plan;

10 3. The Budget Billing Plan

11 4. Actions taken by the Company to deal with the projected capacity deficiency;

12 and

13 5. The status of Docket No. 07-239F.

14 5. Q: Who will submit direct testimony on behalf of the Company?

15 A: Three other witnesses will testify in support of the Company's Application. Mr.
16 Philip L. Phillips, Jr., Manager of Gas Operations and Planning, will sponsor testimony
17 regarding the development of the Gas Sales Forecast and the Loss Factor. Mr. W.
18 Thomas Bacon Jr., Director of Strategic Planning, Energy Supply, will present testimony
19 with respect to the Gas Hedging Program, the estimated purchased gas costs, and revision
20 of the balancing fee for transportation swing service. Mr. C. Ronald McGinnis Jr.,
21 Team Leader in the Regulatory Affairs Department, will present testimony with respect to
22 the development of estimated recoverable firm gas costs, the derivation of the proposed

GCR factors and related true-ups, and the projected recovery positions for the GCR periods ending October 31, 2008, and October 31, 2009, respectively.

6. **Q: What are the proposed Gas Cost Rate factors for the 2008/2009 period?**

A: The proposed Gas Cost Rates are designed to recover the total estimated level of firm gas commodity and demand expenses expected to be incurred by Delmarva during the 2008/2009 period, as well as to “true-up” for the projected over-recovery of actual gas costs during the 2007/2008 period ending October 31, 2008 by including those over-recovered amounts for amortization through the proposed 2008/2009 GCR.

The Company requests that the proposed GCR factors become effective with usage on and after November 1, 2008, with proration. The Company’s proposed GCR factors for the 2008/2009 period are shown below, and are compared to the GCR factors presently in effect. Mr. McGinnis details the GCR factors calculated in accordance with the Company’s Gas Service Tariff and their impact on customers’ bills in his testimony.

GAS COST RATE

	<u>Current</u>	<u>Proposed</u>	<u>Change</u>
RG, GG, and GL	96.517¢/ccf	117.560¢/ccf	21.043 ¢/ccf
LVG and MVG Demand	\$10.2000/Mcf of MDQ*	\$8.5538/Mcf of MDQ*	\$(1.6462)/Mcf of MDQ*
Non-Electing MVG Commodity	\$8.2710/Mcf	\$10.5303/Mcf	\$2.2593/Mcf
LVG and Electing MVG Commodity	Varies Monthly	Varies Monthly	N/A

* “MDQ” is Maximum Daily Quantity, which is a measure of a customer’s contribution to peak demand.

1 **7. Q: What is the impact to customers resulting from this filing?**

2 **A:** During the heating season, a residential customer who uses approximately 120 ccf
3 of natural gas will see an increase in their overall bill of 14.8% or \$25.25 per month, from
4 \$170.37 to \$195.62. The impact on commercial and industrial customers will vary
5 according to usage. However, the change supported in this filing for these customer
6 classes will range from -0.2% to 22.3%

7 **8: Q: Please discuss what actions the Company has taken to mitigate the volatility of**
8 **natural gas wholesales market prices and to lessen the impacts on customers.**

9 **A:** Delmarva uses several methods to mitigate the volatility of wholesale natural gas
10 prices. The Company's Gas Hedging Program ("Program") was first approved in Docket
11 97-293F. In subsequent GCR proceedings, the Commission approved improvements to
12 the Program as a result of a collaborative effort among the Company, Staff and DPA.
13 The overall objective of the Program is to reduce gas commodity price volatility while
14 limiting the firm customers' exposure to increases in the wholesale market price of gas.
15 The hedging program involves entering into exchange traded and over-the counter
16 financial agreements to lock in prices for a certain daily volume of gas for specified
17 periods of time. Mr. Bacon addresses the operation of the program in his testimony.

18 The Company also purchases natural gas during the summer and injects it into
19 storage facilities for withdrawal during the five month winter season when demand is
20 greatest. While the historical relationship of low summer and high winter market prices
21 for natural gas is not as strong as in recent years, storage still is a very good hedge against
22 wholesale price spikes that occur during the winter months.

1 The Company continues to support/sponsor such programs as the Good Neighbor
2 Energy Fund, Consumer Energy Education Group and Low Income Summit. Certain
3 programs provide financial assistance to customers, while others help educate customers
4 on rising energy prices. The Company's Customer Services processes also continue to
5 offer our customer's flexible payment arrangements to help them better manage payment
6 requirements.

7 **9. Q: Please discuss Delmarva's Customer Communications Plan.**

8 **A:** Delmarva has developed a communications plan to be shared with regulators prior
9 to the beginning of the heating season. The plan serves as an outline of activities
10 Delmarva plans to conduct to inform customers about the GCR increase and educate
11 them on ways to use energy more efficiently at home or in the office. The plan discusses
12 the reasons for the increase in the GCR and explains changes to other gas rates such as
13 the Environmental Surcharge. Activities in the plan include elements such as advertising,
14 website messaging, community meetings, on-line home energy audit tools ("My
15 Account"), employee education. The plan also includes a timetable for meeting with
16 various interest-groups who serve the needs of people who are most sensitive to increases
17 in energy costs. In addition to the aforementioned, the plan also discusses activities
18 planned to continue to promote the Company's Budget Billing Program.

19 **10. Q: Please discuss the status of the Budget Billing Plan.**

20 **A:** At the close of June, 2008, the Company had approximately 122,000 gas
21 customers and 13,600 of those gas customers are enrolled in the budget billing program.
22 The Company has prepared a Communication Plan which outlines a series of activities
23 designed to raise customers' awareness of the budget billing program. Activities in the

1 plan include Bill Inserts which will contain information about budget billing and how to
2 enroll. The Company also plans to print a budget billing promotional message on its
3 billing envelope in the fall. Additionally, the Company plans to prominently display a
4 budget billing promotion on the home page of Delmarva.com which will provide
5 information about the program as well as enable customers to enroll on-line in addition to
6 contacting our Customer Service area. The Company will also produce radio and print
7 advertising messages offering fall and winter energy conservation tips as well as
8 information pertaining to budget billing. Customers will also be encouraged to learn
9 more about budget billing at community meetings and various Speakers Bureau events
10 throughout the fall and winter heating season as a way to help manage their energy costs
11 by spreading the costs of higher winter usage over a 12 month period.

12 **11. Q: What plans does the Company have regarding capacity deficiencies?**

13 **A:** The Company has an obligation to provide firm gas supply service to customers
14 who request it. Since the lead time to site and construct needed interstate pipeline
15 capacity is at least 2 years, the Company uses forecasts of customer growth and demand
16 as basis to determine the need for new interstate pipeline agreements.

17 As contained in Mr. Bacon's testimony, the Company currently has a design day
18 gas supply surplus, which is as a result of the expected November 1, 2008 in-service date
19 of the TRANSCO-Sentinel pipeline transportation agreement. This agreement is
20 discussed in more detail in Mr. Bacon's testimony.

21 **12. Q: Please describe the 2007/2008 Gas Cost Rate proceedings.**

22 **A:** On September 2, 2007, Delmarva made its annual Gas Cost Rate ("GCR") filing
23 in which it proposed to revise the GCR demand and commodity charges applicable to

1 Service Classifications Medium Volume Gas ("MVG") and Large Volume Gas ("LVG"),
2 and to revise the volumetrically applied GCR commodity charge factor applicable to
3 Service Classifications Residential Gas ("RG"), General Gas ("GG"), Gas Light ("GL")
4 and Non-electing MVG, effective with usage on and after November 1, 2007, with
5 proration. That filing was docketed as PSC Docket No. 07-239F.

6 The Company's September 2, 2007 filing proposed a 4.0%, or \$7.01, decrease in a
7 120 ccf residential customer monthly winter bill. By Order No. 7285, dated September
8 18, 2007, the Commission allowed the proposed GCR factors in the Company's
9 September 2, 2007 filing to become effective with usage on and after November 1, 2007,
10 with proration, and subject to refund based upon the results of evidentiary hearings. A
11 public comment session was held on November 15, 2007 at the Carvel State Office
12 Building in order to provide members of the public an opportunity to comment on the
13 impact of the proposed rate decrease on customers.

14 Subsequent to the discovery and the negotiation process, on May 21, 2008, an
15 evidentiary hearing was held with Hearing Examiner Ms. Ruth Ann Price presiding.
16 Prior to that hearing, a Settlement was signed by Staff, DPA, and the Company. That
17 Agreement recommends the following:

- 18 1. Approval of the proposed GCR factors, reconciliations, true-ups, and tariff
19 revisions effective on November 1, 2008; and
- 20 2. Delmarva will not plan to hedge more than 100% of its estimated firm supply
21 requirements in any given month. If Delmarva is more than 100% hedged, it
22 will provide an explanation in the Quarterly Hedging Report explaining the
23 circumstances that gave rise to that position. The parties agree to initiate a

1 dialogue on the merits of continuing to sell put options to offset the premium
2 associated with buying call options. The Company will prepare a report
3 discussing the pros and cons of its current strategy. This report will be filed
4 prior to, or with, the Company's next GCR filing.

5 3. Delmarva will modify the Quarterly Hedge Report to include a page
6 that provides a side-by-side comparison of the Percent of Plan Hedged
7 in the current period (the period covered by the Quarterly Report) to
8 the Percent of Plan Hedged in both the previous quarter and the same
9 quarter in the prior year. This will be for Total Hedges, Hedges of City
10 Gate Deliveries, and Hedges of Storage Injections as indicated on Page
11 1 of 3 of the Quarterly Hedge Report.

12 4. The parties will conduct an informal annual review of the Hedge
13 Program each year at the quarterly meeting after the 2nd Quarter Hedge
14 Report is filed with the Commission on August 15. Any proposed
15 modifications to the hedge program will be reviewed as part of a Gas
16 Cost Rate (GCR) proceeding.

17 5. Delmarva's Natural Gas Commodity Risk Management Policy will be
18 reviewed by the Company's Corporate Risk Management Committee
19 each December. An update of the review will be provided to the
20 parties no later than 60 days after the Corporate Risk Management
21 Committee meets.

22 6. The Company's revised Natural Gas Commodity Risk Management
23 Policy adequately addresses Staff's concerns regarding:

- a. comprehensiveness – covering all gas hedging and risk management policies and procedures;
- b. procedures for approving hedge counterparties and managing counterparty credit risk; and
- c. establishment of trading limits for Company personnel and a procedure for approving trades of various sizes.

7. If, after reviewing Delmarva's revised Natural Gas Commodity Risk Management Policy, Staff and DPA are concerned regarding the manner in which the issues in 5 a-c above have been addressed, Delmarva shall meet with Staff and DPA in an effort to address those concerns.

8. Delmarva agrees to revise its future GCR filings to more specifically show the crediting of capacity release revenues and off-system sales margins. Delmarva will include a schedule showing the actual margins/revenues received starting in July proceeding the first month of the true-up period, and demonstrate that the first \$1.7 million of such margins/revenues is credited to the GCR, after which margins/revenues are shared 80/20 between ratepayers and shareholders.

9. In the event that the Company seeks recovery of any costs relating to the Eastern Shore Energylink Expansion Project, either through a GCR filing or some other filing, the Company will clearly identify the costs being claimed, provide supporting documentation for the costs, and

1 explain why Delmarva believes the costs should be recovered from
2 ratepayers.

3 10. The parties' agreement on the issues set forth above does not waive
4 any rights that they may have with respect to these issues in future
5 GCR or any other proceedings.

6 The Commission has not yet addressed the Settlement Agreement.

7 **13. Q: What is Delmarva requesting of the Commission in this filing?**

8 **A:** Delmarva respectfully requests that the Commission:

- 9 1. Approve the proposed Gas Cost Rate factors and balancing charge to become
10 effective with usage on and after November 1, 2008, with proration;
11 2. Approve the Company's proposal to lower the loss factor from 2.5% to 2.0%;
12 3. Approve the reconciliation and true up of fuel revenue and margin amounts based
13 on actual versus estimated monthly commodity cost assignments associated with
14 the LVG and Electing MVG Retail Customers and the Flexibly Priced Sales
15 service ("FPS").

16 **14. Q: Does this conclude your pre-filed direct testimony?**

17 **A:** Yes, it does.